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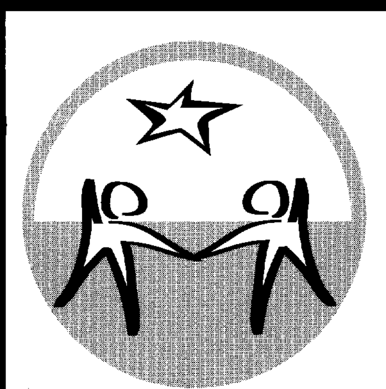

Helping the Poor Manage Risk Better: The Role of Social Funds

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December 1999

Social Protection
LABOR MARKETS, PENSIONS, SOCIAL ASSISTANCE
THE WORLD BANK

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"This paper is a chapter in the forthcoming book: "Shielding the Poor: Social Protection in the Developing World" edited by Nora Lustig and published by the Brookings Institution and Inter-American Development Bank, Washington, D.C., 2000.

Paper presented at IADB Conference on Social Protection and Poverty February 4 and 5, 1999

Recent trends in trade, technology, and politics have created new opportunities for global welfare improvement, but have also increased risks. This challenge requires rethinking social protection and its instruments, particularly social funds. This paper reviews social funds and suggests future directions by using a "social risk management" framework to examine how social funds can help the poor manage risk better. Risk management covers risk reduction, risk mitigation, and risk coping. Analyzing social funds within the social risk management framework suggests that: they should be assessed as one of many components in countries' social risk management strategies; they should move from coping and mitigation to risk reduction; they should focus more on the medium term impact of projects; their targeting should focus on vulnerability and vulnerable groups; their "investment menus" should be expanded to include more risk reduction projects; and more emphasis should be given to participation and capacity building.

The author's are grateful for the support of the Director of Social Protection, Dr. Robert Holzmann for allocating resources to write this paper. The comments of Dr. R. Deutsch of the Interamerican Development Bank and of anonymous reviewers have helped improve the paper. Dinah McLeod of the World Bank's social protection unit provided inputs for this paper in terms of text, editorial comments and conceptual thinking. Gertrude Ssali of the same unit helped with formatting. The views and interpretations expressed in this paper are those of the authors and do not necessarily represent the views and policies of the World Bank.

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I. INTRODUCTION

1. In a world of increasing opportunities and risks due to globalization and technological and political change, there is a need to reassess what we mean by social protection and what role social funds should play in a new strategy of social protection. In parallel with these global developments, social funds have established themselves as important instruments for social protection in many parts of the developing world. This paper will bring the development of social funds into the new global context and the resulting new approach to social protection. The paper will present a new framework for social protection and will show how an analysis and assessment of social funds within this framework helps clarify what the role of social funds should be.

> ***Issues for Poverty Reduction***
>
> *"The key issue for the early part of the next century is how to bridge [the] gap between opportunity and risk. The challenge for policy makers is the design and implementation of institutions, mechanisms and policies at various levels to harness the potential for poverty reduction, by setting a long term course which will access global and local opportunity but allow broad sharing of the gains from development, while managing the short term risks of inequality, vulnerability, marginalization and social dissolution. This is not an easy task, and crucially important will be learning from a detailed evaluation of experiences with actual interventions in the past. It is important to go beyond broad strategies, to draw lessons for implementation which take into account time horizons and social constraints that policy makers actually face."*
>
> Dr. Ravi Kanbur, Staff Director, World Development Report 2000/2001 on Poverty, in Kanbur (1998).

2. To better understand what social protection is and what the roles of public national and international organizations should be in support social protection, Section II proposes a new definition and conceptual framework for social protection, namely social risk management. This definition moves us away from simply looking at social protection as a crisis response and towards a more holistic, institution-oriented definition that puts social protection squarely at the center of the fight against poverty and social exclusion. Section III then updates what we know about social funds, their origins, development and scope of activities. To orient the reader, there is no universally agreed definition of a social fund. And with a decade of experiences reaching across Latin America, Africa, Eastern Europe and Asia, there has been a wide variety of adaptation and variation on the original model. For purposes of this paper, we define social funds as:
"Agencies that finance small projects in several sectors targeted to benefit a country's poor and vulnerable groups based on a participatory manner of demand generated by local groups and screened against a set of eligibility criteria. Social funds operate as second tier agencies in that they appraise, finance and supervise implementation of social investments identified and executed by a wide range of actors, including local governments, NGOs, local offices of line ministries and community groups. Objectives of social funds can range from providing compensation to the poor during times of economic crisis and adjustment to long-term poverty alleviation and social capital creation in marginal areas and populations."

3. Section IV analyzes social funds and their activities within the social risk management framework. Section V presents implications of adopting a social risk management focus when assessing the potential role of social funds in a country's social protection strategy, before presenting some brief concluding remarks in Section VI.

II. SOCIAL PROTECTION AS SOCIAL RISK MANAGEMENT[1]

A. Global Trends and Increases in Risk

4. Recent trends in the evolution of trade, technology, and political systems have created great opportunities for improvements in welfare around the world. Globalization of trade in goods, services, and factors of production has the world community poised to reap the fruits of global comparative advantages. Technology is helping to speed innovation and holds the potential to remove the major constraints to development for many people. Political systems are increasingly open, setting the stage for improved governance by holding those in power accountable to larger segments of the population. Combined, these developments create an opportunity for unprecedented social and economic development. These trends have been especially evident in Latin America and East Asia.

5. The other side of the coin, however, reveals that the same processes that increase the opportunity for welfare improvements also increase societies' susceptibility to economic shocks. This was demonstrated on a worldwide scale in 1998. We saw how the global financial crisis hit hardest the same regions that were poised to reap the greatest benefits. Further, greater trade or better technology can increase the differences between the "have" and "have-nots," just as it can increase opportunity for all, depending on the social context into which it is introduced and the policy measures taken. There is no certainty that any improvements will be widely shared across individuals, households, ethnic groups, communities, and countries. When taking this analysis further, especially in the context of the unequal income distributions of Latin America, this is a serious threat to the social sustainability of the gains. Globalization-induced increases in income variability combined with marginalization and social exclusion can, in fact, increase the vulnerability of large groups.

6. To further complicate matters, the push towards globalization and the higher mobility of production factors also reduce the ability of Governments to raise revenues and pursue independent economic policies and, thus, to have national policies when they are needed most.

7. This three-way challenge: greater opportunities, greater risk and less ability for governments to pursue independent policies, make it imperative to reassess the role of development policies in general and of social protection specifically. The remainder of this Section will present some initial ideas.

[1] This section draws heavily on Holzmann and Jorgensen (1999).

B. Definition of Social Protection

8. A new broad definition of social protection centers on the concept of social risk management:

Social protection consists of human-capital oriented public interventions
(i) to assist individuals, households, and communities better manage risk, and
(ii) to provide support to the incapacitated poor.

9. This definition integrates what we have traditionally understood as social protection, including labor market interventions, social insurance programs and social safety nets, into a unifying theme.[2] The definition offers a framework for analyzing a country's overall efforts to help its citizens manage risk and to care for the incapacitated poor, whereas we have too often in the past analyzed and made recommendations on only one component of the social protection system (e.g., the social fund). Probably the most important advantage of using this definition is that it grounds our analysis directly in household behavior. Any and all interventions should be judged on how they help individuals; families or households manage risk better and how they cater to the incapacitated poor. The definition is also useful in that it re-emphasizes institutional issues, forcing us to look at how families, communities, the market **and** the public sector work in assisting individuals manage risk, since in reality, there are market, government **and** community failures in risk management, mainly due to information asymmetry. Too often analysts jump quickly from a situation of "market failure" to a recommendation for government provision, or from one of government failure to a recommendation of market-based solutions. With the new definition, this false either/or distinction is removed. Finally, the definition broadens our scope from just public transfers or alleviating the effects of a crisis, to a more pro-active, pro-development framework that places social protection at the center of the development debate.

10. This definition of social protection is based on the new framework of social risk management (SRM). This concept goes well beyond social protection since it includes: (i) interventions outside the public sphere such as personal or family-based actions to deal with risk, plus (ii) areas that are not related to human capital including infrastructure projects to reduce the effects of drought, economic policies to reduce macroeconomic shocks, private insurance etc. On the other hand social protection also goes beyond risk management to include measures to deal with the incapacitated poor. The upcoming World Development Report 2000/1 on poverty presents a three-pillar framework for poverty reduction: Giving the poor voice, security (protection from risk), and opportunity. SRM would be one of the three pillars ("security") but with important influences on voice (e.g., by helping communities organize to manage risk) and opportunity (e.g., helping the poor take on higher risk and higher return activities, or take advantage of opportunity). In addition, the social protection interventions dealing with the incapacitated poor are like a safety net spanning all the three pillars to help those who have no voice and are unable to manage risk and take advantage of opportunities.

[2] While this definition unites our thinking across the three traditional areas, each of the areas, e.g., labor markets, may still have objectives that go beyond risk management (World Bank 95).

C. Typology of Risk Management Strategies and Institutions

11. To analyze how social funds fit within this more proactive, household-centered definition of social protection, it is necessary to clarify a typology of risk management strategies and institutions. Risk management strategies fall in three main categories:

a. ***Prevention strategies*** - to reduce the probability of a down-side risk.

12. These are introduced before a shock occurs. Reducing the probability of a shock increases people's expected income and reduces income variance (thereby increasing welfare). Strategies to prevent or reduce the occurrence of income risks have a very broad range that surpasses the scope of social protection. These strategies include: Sound economic policy, public health policy, environmental policy, education and training strategies, and so forth. Preventive social protection interventions are typically linked with measures to reduce the risks in the labor market, notably the risk of un- or under-employment or the risk of low wages due to inappropriate skills or poorly functioning labor markets. They are concerned with labor standards and the (mal-) functioning of the labor market, resulting from bad labor market regulations, skill-mismatch or other distortions.

13. Social funds have not traditionally played a major role in risk reduction, but there are examples such as support for training that will reduce the risk of unemployment, or preventive health interventions such as cancer screening that will reduce the probability of a health shock.

b. ***Mitigation strategies*** - to decrease the potential impact of a future down-side risk.

14. As with reduction strategies mitigation strategies are also employed before the shock occurs. Whereas preventive strategies reduce the probability of the shock occurring, mitigation strategies reduce the potential impact if the shock were to occur anyway. Risk mitigation generally takes two main forms:

(i) *Portfolio diversification,* which reduces the variability of income by relying on a variety of assets from which returns are not perfectly correlated. This requires the acquisition and management of different assets such as physical, financial, human and social capital in their different forms. For example, if individuals can only invest in human capital, they can still diversify in different occupations, but perhaps to the detriment of the return. Government policy that improves the access to different assets not only allows a better risk mitigation, but may allow for high rates of return as well.

(ii) *Informal and formal insurance.* Informal insurance arrangements are difficult to describe in that they come in different and often disguised forms because one "institution" serves insurance and non-insurance type functions (such as the family and the community). This mix and the basis of informal insurance – trust as a result of repeated interactions – renders it difficult for government to strengthen the insurance function.

15. Social funds have played a role in supporting portfolio diversification and asset accumulation strategies through their support for social and economic infrastructure improvements, human capital formation, and microenterprise development. Implicitly, social funds have also helped enhance social capital through building community-level trust and cooperation, thereby setting the basis for informal insurance where they have built procedures to support this goal, as in Romania, Argentina, Malawi, and Peru (Kammersgaard (1999)).

c. ***Coping strategies*** - to relieve the impact of the shock once it has occurred.

16. The main forms of coping consist of individual dis-saving/borrowing or the reliance on public or private transfers. The government has an important role in assisting people in coping, for example, in the case where individual households have not saved enough to cope with repeated or catastrophic shocks. Individuals may have been poor for their entire lifetime with no possibility to accumulate assets at all, being rendered destitute by the smallest income loss and running the risk of being faced with irreversible damages (e.g., death).

17. The level of formality can distinguish the instruments/arrangements used under each of these three risk management strategies. Three distinctions are proposed:

a. ***Informal/personal arrangements*** (such as marriage, mutual community support, and real assets such as cattle, estate and gold).

18. With the lack of market institutions and public provisions, the response by individual households is self-protection through informal/personal arrangements. This sidesteps most information and coordination problems that cause market failure but may be limited in its effectiveness. Examples include: the buying and selling of real assets; informal borrowing and lending; crop and field diversification; the use of safer production technologies (such as growing less risky crops); and the storing of goods for future consumption. While these actions occur informally the government can improve the efficiency or equity of existing instruments or provide or mandate the provision of instruments.

b. ***Formal/market based arrangements*** (such as financial assets and insurance contracts).

19. With the existence of market-based institutions such as money, banks, and insurance companies, individual households will also use these instruments. However, in view of their limitations due to market failure their use will be restricted but will rise with financial market development. Empirical evidence suggests that the establishment of a sound banking system and non-inflationary policy is an important device to manage risk. Because formal market institutions are reluctant to lend to households without secured earnings, microfinance is an important instrument of social risk management.

c. ***Formal/publicly mandated or provided arrangements*** (such as rules and regulations, protection of property rights, social insurance, transfers, and public works).

20. Governments can mandate or provide insurance for unemployment, old age, disability, survivorship, accident, and sickness. In addition, the government has a whole array of instruments to cope with the consumption effect of lost income. The choice will depend on distributive concerns, available fiscal resources and administrative capacities, and the type of shock. Governments can provide unemployment benefits and social assistance benefits (cash or in-kind) in a targeted manner, or they can provide a minimum income in a universal manner to the total population or a subgroup (such as the elderly). In addition, governments can help ensure property rights, thereby facilitating better informal risk management.

21. One reason for the popularity of social funds has been that it allows governments to build on the efforts of communities and the markets through community identification and contributions and the employment of private contractors. This is contrast with more traditional public sector institutions that solely rely on public provision or mandating.

22. Table 1 shows a matrix with examples of social risk management broken down across the two dimensions of the three risk management strategies and the three levels of formality. This three by three distinction is an analytical tool that helps assess the different roles any given intervention could play. In practice there are important overlaps and interaction among various elements. E.g. some insurance mechanisms can have

Table 1: Strategies and Arrangements of Social Risk Management

Arrangement Strategies	Informal/Personal	Formal/Market-based	Formal/Publicly-mandated provided
Risk Reduction			
	• Less risky production • Migration • Proper feeding and weaning practices		• Labor standards • Pre-and-in-service training • Labor market policies • Child labor reduction interventions • Disability policies • Good macroeconomic policies • AIDS and other disease prevention
Risk Mitigation			
Portfolio	• Multiple jobs • Investment in human, physical and real assets • Investment in social capital (rituals, reciprocal gift-giving)	• Investment in multiple financial assets • Microfinance	• Multi-pillar pension systems • Assets transfers • Protection of poverty rights (especially for women) • Extending financial markets to the poor
Insurance	• Marriage/family • Community arrangements • Share tenancy • Tied Labor	• Old-age annuities • Disability, accident and other insurance	• Mandated/provided insurance for unemployment, old age, disability, survivorship, sickness, etc.
Risk Coping			
	• Selling of real assets • Borrowing from neighbors • Intra-community transfers/charity • Sending children to work • Dis-saving in human capital	• Selling of financial assets • Borrowing from banks	• Transfers/Social Assistance • Subsidies • Public works

general equilibrium effects that change the functioning of other interventions[3], and any given intervention, e.g., a social fund will have impacts across risk coping, mitigation and reduction as well as impacts on other aspects of poverty reduction.

III. SOCIAL FUNDS – BACKGROUND AND SCOPE

Social Fund Characteristics

23. In this section we will complement the definitions of social protection and the typology of risk management activities of the previous section with some background on social funds, looking at their origin, development and scope. Many social funds share several operational characteristics:

a. Social funds appraise, finance and supervise the implementation of small social projects but do not (in general) identify, implement and maintain or operate the projects;
b. Social funds establish menus, procedures and targeting criteria to support investments benefiting the poor;
c. Almost all social funds insist on co-financing from the beneficiaries, to ensure that projects are not responding to need but to demand;
d. Even though most are part of the public sector, they often have operational autonomy and enjoy exceptions from public sector rules such as civil service rules or procurement and disbursement rules;
e. While they respond to demand from local groups (community groups, NGOs, local governments or local representatives of regional or national governments), most have a set menu of eligible projects or a negative list of ineligible projects;
f. Most tend to be like private firms in their operational practices, with a small staff employed on the basis of performance contracts, higher salaries and higher performance standards. Management is usually private sector style, that is, driven more by results than by rules;
g. Although most social funds are heavily dependent on external financing, they are run by nationals of the country and do not rely on long-term expatriate technical assistance;
h. Because of their operational autonomy, most funds operate under strict accountability and transparency criteria through independent audits and intense public scrutiny.

24. There are agencies that would meet these criteria but are not called social funds and there are agencies called social funds that do not meet these criteria.

A. Scope of the Interventions, Americas and Elsewhere

25. Since the first internationally known social fund, the Fondo Social de Emergencia in Bolivia was established in 1987, the world has seen an explosion in the number of these institutions and a proliferation of objectives and modes of operation. Today almost

[3] An anonymous reviewer provided this example.

all countries in Latin America and the Caribbean have social funds or development projects (such as the one in North-East Brazil) that share the same operational characteristics as social funds. In sub-Saharan Africa, at last count social funds or their sister Public Works and Employment Projects (AGETIPs by their French acronym) existed in 24 countries (Frigenti and Harth (1998)) with at least half a dozen more countries at various stages of preparing or piloting social funds. In the Middle East and North Africa there are four social funds operating, one of which, the Egypt Social Fund, is the world's largest, with at least two more under preparation. In Eastern Europe and Central Asia, there are about 5 currently in operation with another half dozen at various stages of preparation. The Region that has the fewest social funds is Asia, with only three agencies in operation that are called social funds, and with five more under preparation. However, several agencies do exist in countries such as India and Indonesia that share many operational characteristics with social funds.

Table 2: Number of World Bank-Financed Social Fund Projects since 1987

Africa	28
Asia	3
Eastern Europe & Central Asia	8
Latin America & Caribbean	26
Middle East & North Africa	6
TOTAL	71

Source: World Bank data

26. Regional networks of social funds now exist in Latin America and Caribbean (the Red Social), in Africa for the AGETIPs (AFRICATIP) and have just been formed in Eastern Europe and Central Asia. An exploratory meeting to form a social fund network in the Middle East and North Africa was held in Cairo in December 1998. The founding meeting for the social fund network in Africa is scheduled for March 1999. A good measure of the popularity of the social fund instrument is that when the World Bank organized a conference in 1997 for countries to share their experiences on social funds, about 250 participants came from 70 countries, about 45 of which had active social funds.

27. In terms of level and focus of activity of social funds, they are most widely known for their investments in social infrastructure, particularly health, education, water supply and sanitation, although this varies greatly by country. For the regions where summary statistics are available, Latin America and the Middle East and North Africa regions, the following tables summarize the distribution of investments. Investments in health, education and water supply (infrastructure and non-infrastructure) is the leading area in all funds except Egypt, Chile, the West Bank and Gaza Community Development Project, Algeria, and the original Emergency Social Fund of Bolivia.

Table 3: Distribution of Social Fund Investments in Middle East and North Africa

	Micro-enterprise	Roads	Other Infrastructure	Education	Health	Water and Sanitation	Other
West Bank and Gaza – Community Development Project		40%	24%	20%	6%	10%	
West Bank and Gaza – NGO Project				54%	28%		17%
Yemen SFD	8%		4%	56%	11%	20%	1%
Egypt–SFD Phase I	58%/2	4%	20%	6%	5%	2%	5%
Algeria Safety Net		40%	31%			21%	7%

Source: Van Domelen, "Review of Social Investment Funds in the MENA Region", Working Paper, World Bank, 1998.

Table 4: Portfolio Distribution of Selected Social Fund Investments in Latin America and the Caribbean

	Economic Infrastructure	Social Infrastructure	Productive Projects	Other
Bolivia				
ESF (1986-1991)	44%	43%	3%	9%
SIF (1991-1995)		85%		15%
Chile				
FOSIS(1991-1995)			46%	54%
Ecuador				
FISE (1993-1995)	11%	85%	4%	
El Salvador				
FIS(1990-1996)		84%	13%	3%
Guatemala				
FIS (1993-1995)	3%	62%	2%	33%
Haiti				
FAES (1995-1996)	26%	67%		7%
Honduras				
FHIS(1990-1995)	10%	65%	7%	18%
Nicaragua				
FISE(1991-1994)	19%	63%	1%	17%
Peru				
FONCODES (1991-96)	22%	53%	13%	12%

Source: Goodman et. al., Inter-American Development Bank, 1997.

28. This growth in the number and volume of activity of social funds activity of social funds[4] makes social funds one of the most successful examples of institutional replicability and adaptability in the short history of development efforts. While international agencies were largely responsible for the extension of the basic model between regions, the homegrown demand from countries for this type of program has fueled the adoption and adaptation to local circumstance. The fact that social funds allow governments to build on local groups' ability and resources, and thereby leverage scarce fiscal or aid money, has meant that these funds are now occupying important niches in many countries.

29. However, as part of a country's social protection strategy, it is worth pointing out that social funds remain a very small part of the social protection activities in the vast majority of countries. In a recent review of social funds[5] financed by the Inter-American Development Bank, only one fund in Latin America spent more than one percent of GDP (Nicaragua). On average in the Latin American region, less than US$10 is spent per year per poor person through social funds. In the Middle East and North Africa, in spite of the presence of one of the world's largest social fund in Egypt, which has committed roughly US$1billion since its inception in 1991, social fund spending is a relatively small share of total effort on safety net programs. In general, social funds remain highly dependent on external resources. Exceptions to the rule are Chile, with under 10 percent from foreign

[4] The Inter-American Development Bank and the World Bank alone have invested more than $3.5 billion in social funds.

[5] Morley in Bigio (1998) p. 46.

sources, Columbia with 20% external financing, FONEPAZ in Guatemala at 12 percent and Peru's FONCODES with 58 % donor support. Only Egypt has moved to incorporate more of the share of financing to local sources, from only 6 percent at the outset to 22 percent at present. Data for Africa, Eastern Europe and Asia are not available.

B. Brief History and Evolution of Social Funds

30. Originally, social funds were set up to provide temporary employment and provide "a bridge over the crisis"[6], through labor-based income transfers and a subsidization of social services and infrastructure. As the institutions have evolved, most are now seen as more permanent components of a country's social development strategy. The social funds still respond to emergencies, such as hurricane Mitch in Central America, the fall-out from the wars in Cambodia and Angola, an earthquake in Armenia or a drought in Zambia.

31. Although many social funds were initiated with fairly simple objectives, such as to create temporary employment during a crisis, today most social funds must balance multiple objectives, all of which fall broadly under the umbrella of efforts to improve the living conditions of the poor. Most social funds incorporate to a lesser or greater extent objectives in the following five categories listed below. Please note that these objectives are not mutually exclusive and several social funds have changed emphasis over time:

a. The improvement in a country's **infrastructure**, such as the current Bolivia Social Investment Fund, and the funds in Central America, Peru, Ethiopia, Malawi, Armenia, Angola, and Cambodia. These funds have tended to focus on addressing unmet needs of poor communities through basic social and economic infrastructure.
b. The **employment** funds, typical of the initial stage of funds created in response to emergencies, such as in Bolivia and Egypt. In the absence of emergency, job creation also appears as a prime objective in other funds, such as the AGETIPS in Africa or the planned Bulgaria fund, whose main objective is the provision of short-term employment mainly through the repair of infrastructure.
c. Broader-based **community development**, exemplified by such the social funds in Argentina, Romania, Malawi and Zambia, where a major objective of the funds is to build community capacity to demand and manage development resources. This is most frequently done through a "learning-by-doing" process where the social funds finance mainly infrastructure projects that the communities manage and implement.
d. Improvement in the delivery of **social services**, as typified by the funds in Chile, Argentina and Romania, where a major emphasis is put on financing private-public partnerships in social service provision, including a large emphasis on training.
e. And **support for decentralization,** promoted by the funds in Chile, Honduras, Bolivia or Ethiopia, where a major objective of the fund is to work closely with local governments to support the decentralization effort of the

[6] Avila, Campero and Patino (1992).

country. Some funds pass on their expertise to governments (Zambia, Honduras) while others (like Chile) transfer successful pilot interventions to local governments.

32. There is hardly a uniform trend in where social funds are going, and any knowledgeable social funds person will be able to come up with a dozen funds that are not following any of the trends given here. In any case, in a very general sense these are some of the trends that can be observed:

a. Social funds are generally becoming **more permanent**, more integrated into a country's overall social and economic development efforts – this implies more and better coordination with line agencies, local governments and civil society.
b. There is a relative increase (but from a very small base) of the share of resources from social funds that go **to social services.**
c. Increasing social funds pay more attention to popular **participation** both to enhance sustainability and to build social capital.
d. Social funds are increasingly seen as and are moving to operate more as supporters of **decentralization.**
e. Social funds are faced with increasing demand for **income generating sub-projects**, but the experience so far has been mixed. The funds with better performance in the microfinance area have usually done a combination of two things: First, they have selected appropriate intermediaries and second, they have adopted policies that take into consideration best practice in the microfinance area. The Chile social fund presents an interesting case in terms of its successful support for income generation.

C. Successes and Shortcomings of Social Funds

33. In the ten-plus years of experience with social funds several stylized facts can be developed about what works and what does not.[7] On the positive side social funds have proven to be:

a. Fast - they are the quickest-disbursing part of the World Bank's portfolio and they have developed a reputation for timely and quick disbursements to the small projects they finance;
b. Agile - they have proven to be very good at adjusting to changed circumstances, as decentralization moves forward, as a natural disaster happens, etc;[8]
c. Participatory - they tend to be more participatory than other development projects, but they have the potential to do even better, and there is wide-variety across social funds;

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[7] While these stylized facts are the authors' own, many are supported by the findings of assessments such as Bigio (98), Frigenti and Harth (1998), Goodman et al. (1997), Pradhan et al. (1998), and Subbarao e. al. (1997).

[8] Some examples include: Honduras, where in response to Hurricane Mitch, the FHIS shifted to emergency assistance and reconstruction by changing procedures and quadrupling FHIS capacity; Chile, where after a strategic planning exercise, FOSIS revised its menu of eligible interventions and shifted to a geographic rather than programmatic focus; and Bolivia, where the FIS now works solely with local governments in response to the new decentralization policies.

d. Well-targeted - they tend to reach poor communities, but the poorest households or marginalized groups need help in formulating and implementing projects;
e. Cost-efficient - they have low overheads and administrative costs and generally manage to provide infrastructure at much lower costs than traditional public sector agencies;
f. Accountable - both in terms of financial and public accountability the funds tend to outperform other development interventions;
g. Trust-generating - where they work well they help generate trust in the public sector among communities and build social capital;
h. Diverse - in that they can work in very different situations (for example, in Armenia, Argentina, Cambodia, Rwanda and Haiti).

34. Social funds generally do not do well on the following points:

a. Microcredit – but there are exceptions and the newer funds tend to do better;
b. While social funds have been very successful at reaching under-served areas and marginal populations, there has also been leakage of benefits to the non-poor and gaps in coverage of the poorest of the poor (while social funds do in fact reach the lowest income deciles, not all of those in those deciles benefit from social fund interventions). These observations are largely due to: (i) the demand-driven model which relies upon community initiative and capacity; (ii) the focus on providing access to broad public services (health, education) where exclusion of less-poor community members is not feasible, and (iii) on inclusion of certain types of programs which may be less well targeted by their natures (e.g. small and micro-enterprise support, urban sewerage);
c. Integrating with the rest of the public sector -- there is still too little learning between social funds and the rest of the public sector. While most social funds were designed as temporary instruments, there has been little success in training and transferring the positive aspects of social fund experience to line ministries. Some critics claim that the operational success of the social funds has distracted attention from the longer-term institutional reforms necessary in the permanent public agencies.
d. Integration with the policy framework, because of their operational autonomy, several funds have ended up running as almost parallel governments confusing beneficiaries and not contributing to capacity building.
e. Measuring their impacts in order to identify which types of interventions will maximize the effectiveness of social fund investments
f. Providing massive assistance, especially in terms of employment generated. Moreover, targeting of employment benefits have tended to exclude women and be less pro-poor than programs which use lower than market-based wages.

35. The main issues where there is either conflicting evidence or too little to draw conclusions at this point are:

a. Sustainability. Social funds have a mixed record on sustainability. Social funds that started as emergency operations rarely focused on sustainability as a prime issue. As funds have evolved and become more focused on medium-term impacts, sustainability become a systemic concern, particularly given the poor track record of line ministries and local governments often responsible for operating and maintaining the investments after the social fund intervention. On health and education investments they tend to do better than traditional ministries due to the emphasis on community participation; on economic infrastructure they do as well or as poorly as other agencies depending on the institutional framework in the country.[9]

b. Optimal institutional design. Originally, autonomy from line ministries was seen as fundamental for a social fund to operate. However, there are several successful counter examples, including social funds in Chile and Zambia under the Ministries of Planning and the Argentina social fund, which is a program of the Ministry of Social Development. In terms of operating procedures, some funds work more directly with community groups (Peru, Argentina, Zambia, Malawi, Romania, and Armenia) while other work more closely with intermediaries like local government (Honduras, Nicaragua, Bolivia). In terms of the types of investments included in social fund menus, some funds focus more narrowly on social infrastructure, while others have more expanded menus to include significant investments in productive activities, training and social services. In general, it appears that optimal institutional design is better determined by country need and circumstance than standard prescription.

36. Two of the main difficulties in coming to hard and fast conclusions about social funds are the diversity of experience and the dearth of effective evaluations of social fund performance and impact. The last point may seem contradictory when one looks at the lengthy bibliographies and research pieces devoted to social funds. However, most evaluations have been limited by the lack of data on what is happening to program participants at the household level and a lack of information allowing comparison of social funds to other delivery mechanisms. To address the second point, the World Bank launched the Social Funds 2000 Study in 1998 to evaluate social fund performance in terms of poverty targeting, impacts of benefits at the household level, sustainability of these benefits and cost effectiveness of interventions compared with other delivery mechanisms in each of six case study countries (Bolivia, Honduras, Zambia, Armenia, Nicaragua and Peru). Results are expected for the first quarter of 2000.

37. For social funds to remain effective contributors to social protection, the institutional issues raised above will need to be addressed in a sustained fashion. Where social funds have narrower sectoral focus, sharing tools and information and joint evaluations with line ministries and local governments may lead to either better rationalization of efforts, mutual strengthening of institutional capacity and/or eventual phasing out of social fund support in certain areas.[10] In other instances, closer social fund integration with local governments combined with greater decentralization may lead to an absorption of social fund financing within fiscal transfer schemes. In other

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[9] Bigio (1998).

[10] An example of transfer of models back to line ministries is Chile's FOSIS support for forestry initiatives.

circumstances, social funds may take on a more pre-eminent role in assisting poor communities to organize and express their demands. By addressing these institutional coherency and effectiveness issues, social funds may evolve into more permanent actors in a country's social protection and poverty reduction framework.

IV. SOCIAL FUNDS IN A SOCIAL RISK MANAGEMENT FRAMEWORK

38. This section merges the discussion of social funds (Section III) and social risk management (Section II) to show how thinking about social funds as one component of social risk management may change our view of social funds, or help clarify what their role will be. Section V will then outline where we see social funds going based on this analysis.

A. Social Funds and Social Risk Management Agents

39. One of the reasons for the relative successes of social funds has been their ability to work with a wide variety of agencies, private contractors, line ministries, local authorities, de-concentrated agencies, international and local NGOs, community-based organizations and the communities themselves. Social risk management is focused on helping individuals manage risk better, but individuals' risk management strategies employ a variety of institutions or economic agents. The most basic unit is the family – where a lot of the information asymmetries are minimized (see Section II). NGOs and Community-Based Organizations (CBOs) also help through information intermediation between the families in a community and the outside world. Similarly, market-based institutions are employed through the labor or financial markets. Finally, the various public sector agencies also play a role. Social funds work with all these agencies, and it is not surprising that social funds are often regarded by the beneficiaries[11] (and sometimes by the public at large) as fully responsive to community and household priorities and therefore, as an important agent of public support for their own risk management.[12]

B. Social Funds in the Arrangement/Strategies Matrix

40. Figure 1 on page 26 shows a mapping of the different types of social funds discussed in Section III into the matrix in Table 1. The **employment** funds are set up to help people **cope** with the effect of the crisis. What differentiates social funds from traditional public programs is that active participation from the private sector and civil society is encouraged, either via the use of private sector contractors and/or civic organizations as sponsors, and thus the social funds are able to move out of the bottom right corner of the matrix towards the middle of the last row. Some recent social funds with a public works component such as the Malawi Social Action Fund have managed to include some elements of community participation, spreading the coverage of these funds into the first column as well.

41. The **community development** funds fit within the cells of support to informal **mitigation** and **reduction** mechanisms. They help in mitigation by building social

[11] Van Domelen and Owen (1998).

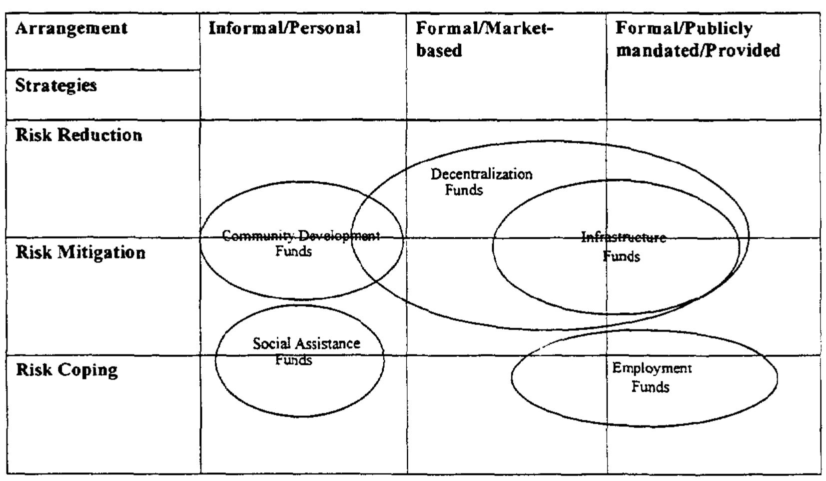
[12] As funds evolve towards becoming more permanent instruments, they run the risk of losing some of the characteristics that have made them so popular in the first place, namely agility and flexibility.

capital (one more asset for the portfolio of the vulnerable) and in reducing certain risks such as local conflict through the support for locally generated joint efforts.

42. The **social service** funds have so far mainly focused on supporting households' **informal coping** mechanisms (such as support for AIDS victims, helping the poor get access to existing transfers) or within mitigation (through support for building human capital through nutrition, training and other human development services). The **support for decentralization** funds are working across the market-based and public sector aspects of risk **mitigation** and **coping**. By building the capacity of local governments to interact better with the private sector and with communities, they are helping lower the information gap, that has in the past caused government failure in the provision of some social risk management services at this level.

43. The trends in social funds we identified in Section III (more permanent, more social services, more participation, more decentralization and more income generating)

Figure 1: Social Funds in the Social Risk Management Framework



would seem to indicate that social funds are shifting upwards in the matrix towards risk reduction and left to involve support for informal coping mechanisms as well. So the overall trend since the beginning of social funds have been from the lower right hand corner moving up and left.

C. Social Funds as One Component of Social Risk Management

44. Even though different kinds of social funds cover different aspects of social risk management, social funds are only one tool in a government's array of policy options and assistance programs in the social protection area. Most of the issues of concern for the future operations of social funds have had to do with the institutional framework in which they operate. Questions of the relative roles and responsibilities of social funds vis à vis line ministries and local governments are still evolving and depend to a great degree on individual country circumstance. There has been less questioning of the role of social funds as a primary social protection measure in many countries.

45. In considering social funds within a broader social risk management strategy it is important to place their operations within the full range of public policy. To illustrate, using the example of employment creation, a government's social risk management strategy in this area should encompass, inter alia:

a. fundamental macroeconomic policies oriented to labor intensive growth;
b. specific labor market policies and regulations to create the conditions for optimum market behavior in the creation of job opportunities;
c. financial sector policies and their effects on employment generation in the private sector; and
d. transfer programs through public works programs or unemployment benefits.

46. As briefly discussed above, several social fund-type mechanisms have been created with temporary employment as a prime objective. For instance, in Bolivia after the closure of the tin mines, in Egypt to deal with the effects of the Gulf War, in West Bank and Gaza in response to the border closures with Israel, in Ecuador as a response to the economic contraction during adjustment. To think of a social fund within a social risk management framework means to assess first whether temporary employment is needed (e.g., is open unemployment the issue for the vulnerable?); and then whether a social fund instrument is better at delivering such services than other, perhaps more centralized and top-down interventions. The result of such an analysis should not be pre-judged: even though social funds have done well on many scores, employment creation has not been their strong suit.[13]

47. A social risk management strategy would look first to the policy environment and its effect on employment. There may be a 'bigger bang for the buck' in adjusting labor market regulations than creating a small number of short-term jobs through public works. Second, the specific vulnerable groups should be identified. For instance, social funds have not been very effective in targeting a specific type of worker to benefit from these temporary jobs, be they ex-miners or redundant public sector workers. Although considered 'vulnerable', such groups often have coping mechanisms (severance pay, higher skill and education levels, etc.) which make direct employment generation through public works less attractive. Lastly, the broad range of possible direct assistance interventions should be considered. If, within this framework, there was scope for a social fund to play a part in generating temporary jobs, it should be clear the relative share of the social risk management strategy that the fund is responsible for. In general, even the larger social funds with explicit employment creation objectives have generated temporary jobs equivalent to well below one percent of the labor force. While this may serve as an important political tool during difficult periods of transition and shocks, as a social risk minimization strategy, its effects reach a relatively small number of households at risk.

48. The same holds true for social fund operations as a poverty alleviation or compensation measure. Although the number of people benefiting from improved access to and quality of social infrastructure and services is far greater than the potential employment impacts, the amounts disbursed are minor. The IADB study discussed

[13] For the results on Bolivia see Newman, Jorgensen and Pradhan (1991).

above found that the value of goods and services being transferred by a social fund to the poor typically average well below five percent of the per capita income of the poor.[14] The finding is similar to a recent review of social funds in the Middle East and North Africa Region which found that, in all cases, the annual amount transferred was less than four percent of the poverty line income.[15] Therefore, the social protection effects of social funds, either in terms of employment creation or in the provision of basic services to the poor have been more important for their micro effects on individuals and households than on any effect at the macro or national levels.

49. Especially in Latin America, it is important not to expect social funds to be the one and only answer to poverty reduction and social risk management. This is tempting because of the funds' high visibility and apparent results on the ground. While social funds have proven to be an important instrument, they have not been and were never intended to be a panacea, neither for poverty reduction[16] nor for social risk management.

V. WHITHER SOCIAL FUNDS?

50. The preceding analysis has given some examples of how social funds could be analyzed within a nation's social risk management strategy. Social funds have primarily been viewed as either a quick response to transitional problems or a compensatory mechanism to transfer resources to poor communities. Governments have found them attractive since they provide financing to poor groups that were not previously reached and they do so in a transparent and agile manner. Donors have liked social funds for similar reasons. Bringing in the more dynamic notion of social risk management has implications for where social funds should be evolving. The primarily implications have to do with: (i) more focus on impacts and flow of services than the infrastructure itself; (ii) mechanisms for targeting beneficiary households and communities; (iii) the types of eligible investments financed by social funds; and (iv) the impacts of the processes themselves used by social funds.

Better Impact: The Example of Education

Education investments account for a significant share of current social fund portfolios. In most cases, grants are given for school rehabilitation and/or construction of new classrooms at the primary level. Potential impacts of these investments vary between projects. These benefits range from extending the useful life of a building, to creating space for increased enrollment, increasing the number of years offered at the school, improving teacher and community morale and hence the quality of education. Under a social risk management strategy, the benefits of building repair are far outstripped by the benefits of increasing enrollment and number of years completed, as these will have the largest effects on the capacity of poor households to reduce risks over time.

Taking social risk management as a primary consideration, social funds would become more discerning in their education investments, placing relatively more resources into projects which had greater potential to affect either enrollment (directly though creating more spaces or indirectly through reduced drop-out rates) or years of schooling completed. By focusing their attention on impacts in educational attainment, social funds will be better able to steer themselves away from becoming simply a substitute for national school construction and maintenance programs.

[14] Goodman et al (1997).
[15] Van Domelen (1999).
[16] Bigio (1998), Goodman et al (1997).

A. Impact and Flow of Services

51. Social funds support risk mitigation at the community level since there are more assets available for a community to manage in a portfolio sense after the social fund has financed new or improved infrastructure. To move the social funds squarely into the risk reducing area their investments need to help prevent shocks. This would mean to make sure that the water supply system indeed does provide clean water over a period of time to prevent water-borne diseases, to make sure learning is taking place in the school, so the risk of future low earnings are reduced. In other words, social funds need to pay more attention to the flow of benefits from the infrastructure it has created, including paying more attention to operation and maintenance.

52. To date, social funds have been more focused on outputs than outcomes, understandable in the context of social crises and the need to prove their operational capacity. Moving to a greater focus on outcomes will require that social funds become better 'learning organizations' capable not only of action, but in-depth monitoring and evaluation. Initial steps have been made, with fairly comprehensive qualitative information available on most social funds through beneficiary assessments. Improvements in quantitative information, particularly about benefits to poor households and sustainability of social fund investments, are underway in several countries with support from the World Bank-financed Social Funds 2000 Impact Evaluation Study. Mainstreaming impact evaluation methodologies and ensuring and ensuring that learning takes place across social funds, local governments and sectoral is a significant challenge for the future.

B. Beyond Poverty Targeting

53. As mechanisms to reach the poor, social funds use three primary targeting techniques: first in the types of investments that are on the menu, which are typically basic services; second in screening of each microprojects, where it is assured that the beneficiaries are poor; and third in some form of geographical screening or weighting system which allocates resources in a progressive fashion to poorer regions.

54. In addition, most social funds use some form of pro-active measures to correct for the inherent bias of a demand-driven system, namely that the poorer areas will not be able to effectively compete for resources. These proactive measures include reducing transaction costs for poor applicants by setting up regional offices, financing pre-investment technical support, and in some cases such as in Argentina, Chile and Romania, and providing resources for poor communities to mobilize and organize in order to effectively express demand.

55. Given the limited resources available to social funds compared to the poverty problems of the countries, difficult decisions about who to reach are unavoidable. In general, the targeting strategies of social funds use a broad focus on poor communities, not distinguishing by vulnerability. To improve their effectiveness at risk management, social funds should seek to identify communities, households and individuals within the broad pool of the poor which are by their nature more vulnerable and marginalized. If

one of the goals of social risk management is to improve equity, assisting the most vulnerable will increase the impact of social fund investments. This will be difficult given the demand-driven nature of the funds and fierce competition for resources coming from eligible communities. Nonetheless, there are several strategies which social funds should consider, many of which are already used by selected social funds. Such strategies might include:

a. a more exclusionary approach to eligible communities;
b. a sliding scale of community contributions with less counterpart required of the most marginalized participants;
c. expansion of the menu to include projects explicitly oriented to such vulnerable groups as the elderly or indigenous groups; and
d. a greater emphasis on resources to enable communities to tap into other government programs.[17]

C. Expanding The Menu Of Microprojects

56. Using a social risk management approach calls for a reconsideration of the 'menu' of eligible social fund microprojects. Priority investments would include those interventions that have the most profound effect on reducing the risks faced by the most vulnerable populations. This means an expansion from the traditional area of social infrastructure investment. Financing projects which address such issues as legal assistance to help vulnerable groups obtain property rights, financing transportation to facilitate remote communities' access to health and education services, supporting empowerment training for women are examples which might be envisioned under a social risk management strategy.

57. To date, there has been relatively less emphasis placed on community economic development (which would help reduce and mitigate risk) than on short-term employment creation and delivery of basic social infrastructure. There are some notable exceptions, such as the cases of Egypt, Chile and Albania where significant resources have gone to microfinance and technical support to entrepreneurs. These programs help to accumulate assets at the household level, a key element in a social risk management strategy. If social funds accept their place in a broad social risk management strategy for country, this will mean more emphasis on support for community economic development, an area where social funds have done less well in general.[18]

D. Participation And Capacity Building

58. Social funds contribute to social risk management through the creation of local capacity. In addition to the impacts of the investments themselves, social funds further

[17] Romania's Social Development Fund is financing programs that allow marginalized groups to get access to existing government benefits such as child or elderly allowances. The Argentina Participatory Social Fund finances empowerment and leadership workshops for women's groups which has, among other elements, training for how to access municipal services. Another Argentine example is a sub-project that provides legal services to an indigenous group to enable them to have national identity cards, and hence access to entitlement programs.

[18] Where microfinance or other income generating activities have been successful, the majority of beneficiaries are women, especially women heads of households, so a move in this direction would also help develop more gender-balanced social risk management. The fact that men do not apply is not only due to targeting, but also due to the fact that market failure is less for men than for women.

this local capacity building in two important ways. First, social funds have been an important source of resources and learning by doing for decentralized, locally based entities, including local governments, NGOs, local offices of line ministries and community groups. This is consistent with the notion that vulnerable communities are better served by public interventions that are executed in a decentralized fashion, where the asymmetries of information are less. The impact of local agencies more able to address local problems is difficult to quantify but has been observed in many impact assessments of social funds.

59. To maximize this impact, social funds design should go beyond a more narrow focus on local agencies and groups as executing agencies, or channels for investments, and seek to obtain further institutional impacts. Many social funds have made important strides in this respect. For example, in Zambia, district officers are fully integrated in the project cycle and receive an important complement of training. In Argentina, participatory provincial and local councils have been established to further coordination, information sharing and resource optimization around social investments, including those made by the social fund. In Honduras, the FHIS has sponsored one of the first forays into town hall type meetings, or *cabildos abiertos*, to identify community needs and priorities in a participatory fashion.

60. The second area of process impact is on the 'social capital' of poor communities. Due to their demand-driven, participatory approach, social fund interventions may increase both household and community social capital by increasing community cohesion, furthering community propensity to act jointly for the benefit of members of the community, and building trust and empowerment. In most cases, this effect is attributable to processes that increase social capital through the skills, networks and confidence gained by the community at large in the identification of their needs and by project committee members who manage the implementation of the microprojects. This increased community capacity to address problems is often observed in increased participation rates in community-initiated activities and improved perception of the community by its residents, as borne out in beneficiary assessments carried out on social funds.[19] For instance, in Malawi, a beneficiary assessment of community participants found that their trust in government in general had increased due to their experience in working with the Malawi social fund, MASAF.

61. Social funds that have been more successful at building social capital appear to be those that have processes which give maximum responsibility to communities for the design and implementation of microprojects. For instance, many funds use a formal community assembly mechanism to identify and prioritize needs. Several funds channel financing directly to community project committees, who are then responsible for project implementation, including selection of contractors or service providers, administration and supervision. These mechanisms have helped raise awareness of the broad range of community perceptions of needs, forge links of shared concerns between community members, mobilize general participation, and give valuable organizational experience to selected community members.

[19] Van Domelen and Owen (1998).

62. In some instances, there may be an apparent trade-off between building capacity of local agencies and increasing social capital of poor communities. For instance, social funds which channel money directly to community groups are often criticized as short-circuiting local government's prerogatives. On the other hand, social funds, which rely to a large degree on intermediaries (be they governmental or non-governmental agencies) usually have less intense community participation and responsibility built into their project cycles. In fact, optimal social fund design should seek to combine the two elements. Strengthening both local institutional capacity and social capital of communities would best further the goal of social risk management.

VI. SUMMARY AND CONCLUSIONS

63. We have tried to show how social protection is best looked at as social risk management, with interventions targeted at helping the vulnerable reduce, mitigate and cope with risks. We have discussed the evolution of social funds and the scope of their interventions within this framework.

64. Social funds have played a role in social risk management in the past, but mainly in area of risk coping with some impact on risk mitigation. Their relative operational efficiency and ability to work with a variety of actors involved in social risk management makes them potentially important vehicles for risk reduction and mitigation as well. To move social funds in this direction would require moving social funds in the following directions:[20]

a. More emphasis on impact and flow of benefits from the infrastructure created, seeking to maximize impact and not just output, including more attention to the elements of projects that heighten impact and the sustainability of these effects;
b. Move from poverty to vulnerability targeting, by targeting specific vulnerable groups, different contribution levels depending on vulnerability, development of model projects for specific vulnerable groups and more focus on putting vulnerable groups in contact with existing government programs;
c. New additions to or more promotion of items on microprojects menu, such as legal assistance, preventive health projects, empowerment training and income generating;
d. Strengthen focus on building social capital and local organizational capacity through better participatory techniques.

[20] An indication that the social risk management framework is relevant for the developing countries, these conclusions and directions are very similar to the ones developed in the 1997 international conference on social funds (Bigio (1998)).

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Summary Findings

Recent trends in trade, technology, and politics have created new opportunities for global welfare improvement, but have also increased risks. This challenge requires rethinking social protection and its instruments, particularly social funds. This paper reviews social funds and suggests future directions by using a "social risk management" framework to examine how social funds can help the poor manage risk better. Risk management covers risk reduction, risk mitigation, and risk coping. Analyzing social funds within the social risk management framework suggests that: they should be assessed as one of many components in countries' social risk management strategies; they should move from coping and mitigation to risk reduction; they should focus more on the medium term impact of projects; their targeting should focus on vulnerability and vulnerable groups; their "investment menus" should be expanded to include more risk reduction projects; and more emphasis should be given to participation and capacity building.

HUMAN DEVELOPMENT NETWORK